

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Ackerman Analyst: Darrine Distefano Bill Number: SB 846

Related Bills: See Legislative History Telephone: 845-6458 Amended Date: 03-27-2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Attorney, Physician, Surgeon & Dentist Services at No Charge For Nonprofit Charitable Organization Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 23, 2001 .

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2001 STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow a credit for free services provided by an attorney, physician or dentist on behalf of any nonprofit charitable organization that helps the poor.

SUMMARY OF AMENDMENTS

The March 27, 2001, amendments added dentists to the list of professions eligible for the credit.

The March 27 amendments did not resolve the concerns identified in the department's analysis of the bill as introduced February 23, 2001. The unresolved implementation and technical concerns are provided below. Except for the change to revenue, the remainder of the department's analysis of the bill as introduced on February 23, 2001, still applies.

POSITION

Pending.

IMPLEMENTATION CONSIDERATIONS

This bill uses terms that are undefined, i.e., "physician," "surgeon," "poor," and "fair market value of services". The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of the credit.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

04/17/01

This bill provides a credit for services for, or on behalf of, any “nonprofit charitable organization” that provides services to the poor. Current law allows a deduction for contributions to certain charitable organizations. The author may wish to clarify if this credit is: (1) limited to organizations for which a contribution would also be deductible, (2) extends to other types of nonprofit charitable organizations that provide services to the poor, or (3) applies to both types of organizations.

ECONOMIC IMPACT

This bill would result in revenue losses as shown in the following table:

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 2000 Enactment Assumed After June 30, 2001 \$ Millions		
2001-02	2002-03	2003-04
-\$180	-\$255	-\$260

Note: Since fair market values can represent subjective judgments, this bill could lead to significant abuse and even larger revenue losses.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact for this bill will be determined by the fair market value of uncompensated services provided by attorneys, physicians and surgeons, and dentists and the tax liabilities of claimants. This analysis assumes that no compensation whatsoever can be received by those professionals for donated services.

The original analysis dated February 23, 2001 still applies with respect to the revenue estimate for attorneys, physicians and surgeons. The revenue shown above reflects adding Dentists to the original estimate.

Dentist

According to the 1999 U.S. Statistical Abstract, there were approximately 162,000 dentists nationwide for 1997. It was assumed that California represents approximately 12% of the nation, yielding approximately 19,440 dentists. This number was grown by Consumer Price Index (CPI) projections, yielding approximately 21,993 for 2001.

For this analysis, it was assumed that the average income tax liability for dentists who would take the credit would be approximately \$7,500 (average income of \$150,000 x .05 average marginal tax rate). Further, it was assumed that dentists who participate could greatly reduce or eliminate their tax liability by using this credit, leaving a minimum amount of unused credits to future years.

Based on the major incentive effect of allowing a 100% tax credit (despite the loss of compensation), it was assumed that in the first year, 10% of dentists would reduce or eliminate their state taxes, generating a loss of \$16.5 million for tax year 2001. The first-year estimate is less than later years because enactment is assumed after June 30, 2001.

For 2002 and thereafter, it was assumed that approximately 20% would reduce or eliminate their state tax liability, generating a loss of \$34 million for 2002. Losses were grown by CPI projections and adjusted for deductions that would have otherwise been allowed under current law (i.e. material costs).

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